

PERAC AUDIT REPORT



Swampscott Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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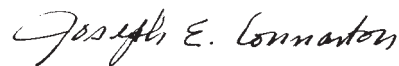
January 14, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Swampscott Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. System Administration:

During the 2006 calendar year, the Swampscott Contributory Retirement System incurred liabilities assessed by the Internal Revenue Service. They incurred penalties for late payment of taxes withheld from retirees during the 2004 calendar year; failure to file Form 945 for the calendar years 2001-2005 (5 years for withholding on Forms 1099R); and a penalty imposed for late filing of Form 1099-R that relates to benefits paid to retirees during 2004. Retirement administrators should be knowledgeable of IRS reporting and filing requirements with respect to pension payrolls for contributory retirement systems in Massachusetts.

Recommendation: The Board must conform to all laws and regulations related to filing requirements for benefits paid to retirees and funds held in trust for taxes. This is a basic prerequisite for the operations of any retirement system.

Board Response:

All Federal Tax deposits (monthly payroll, refunds) have been made in a timely manner. Upon notice from the IRS in April, 2005 that tax returns were not filed, the Administrator immediately apprised the Board Members to correct the problem. This matter has been resolved.

2. Expenses Charged to the System Credit Card:

The Swampscott Contributory Retirement System uses a credit card to charge ordinary and necessary business expenses of the system. A review of these expenses disclosed that the source invoices, consisting of the specific charges that support the warrant, were not attached to the credit card voucher. This practice made it difficult to confirm the legitimate business purpose of the expenditure. The invoices are located in other files and were subsequently inspected. The result is payments are approved without a formal reconciliation process to confirm the charges listed on the statement. During the two-year audit period, over \$1,100 in payments were identified to a vendor for a duplicate service that should have been cancelled, \$148 in finance charges incurred for late payments, \$116 in late payment penalty fees, six occasions when the payment exceeded the legitimate balance due and similar issues arising from this practice. Overall, the process reflects weak internal financial control over the operations of the system.

Recommendation: The Board must ensure that all vouchers are fully supported by detailed invoices before approving payment. Receipts for transactions charged to the System credit card must be retained and matched to activity on the periodic statement provided by the issuer. Only transactions determined to be valid should be authorized for payment. The original receipts should be the primary source for posting the activity to the general ledger. The general ledger account to be charged should be prominent on the source document. A more formal reconciliation process should be initiated to prevent authorizing payment for previous balances and to confirm the validity of all fees for late payment, cash advances, finance charges and similar activity. Such fees should be avoided under all circumstances contemplated by this kind of financial tool. The use of the system credit card for personal purposes should be prohibited.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

Pursuant to the Commission's recommendation, receipts are now filed with the credit card as well as the vendor's file.

3. Travel Expenses:

Travel expenses are not submitted on a formal expense reimbursement document. Currently, the process involves inspecting the general ledger and matching activity posted there to the Board member's file folder, or the credit card issuer vendor file, or the original vendor file. This results in an awkward audit trail for confirming routine travel and similar expenses.

Recommendation: A more official and detailed expense reimbursement form needs to be adopted. The form should be standardized, state the purpose of the travel request, disclose the potential benefit or legitimate business purpose to the Board, be approved by the Board in advance and be supported with sufficient detailed receipts and documentation to demonstrate the validity of this use of retirement funds. The form must be certified by the person requesting reimbursement.

The Board must conform to PERAC's travel regulations as detailed in 840 CMR 2.00. The Board may adopt additional supplemental regulations to supplement and expand upon these regulations. However, such regulations must be submitted to PERAC for review and approval as required by the provisions of G.L. c. 7, § 50 and c. 32, § 21 (4).

Board Response:

Pursuant to the Commission's recommendation, the Board has developed a spreadsheet for Members and Staff to use for itemizing travel expenses.

4. Bank Reconciliation:

We inspected bank reconciliations for the three primary bank accounts used by the Swampscott Contributory Retirement System. They represent activity for retiree benefits, payables for expenses and a money market account. The reconciliations were prepared by the retirement staff person. There was no indication the Town Treasurer prepared any independent reconciliation of these accounts. As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system bank accounts. This process is necessary to maintain proper internal control by segregating the reconciliation duties. The Town Treasurer receives a stipend from the system as compensation for the performance of this function.

Recommendation: The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23 (2) (a). The Treasurer must be instructed to provide appropriate paperwork (bank statement, reconciliation and outstanding check list) to the Retirement Board on a monthly basis. The system should not issue remuneration in any form for services that are not provided.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Treasurer has been briefed regarding the Commission's recommendation and will begin reconciling accordingly.

5. Affidavits:

Every two years, the Swampscott Retirement System requires each retiree to submit an annual verification form with a signed statement of their retirement status. The form mailed to the retirees specifically stipulates that any non-compliance will result in benefit checks being withheld. During the August 2005 annual verification process, three Swampscott retirees never complied with the Board's request to attest to their active retiree status. For each of the three retirees, the Board mailed a 2nd request to verify retiree status, however compliance was never achieved.

Recommendation: The Board should implement their benefit hold - back process when retirees fail to comply with the annual verification process. Other Boards have successfully utilized this procedure as a method to ensure all retirees attest to their retirement status. Furthermore, PERAC Regulation 840 CMR 15.01 (2) makes this a mandatory process for all Retirement Boards to follow.

Board Response:

After advising approximately 15 Retirees for the second time that their retirement allowances would be suspended until such time as they submitted their annual affidavits to the System. By December 15th, all but two Retirees had submitted the required documentation. The Board suspended the allowances of two Retirees.

6. Membership Supplemental Schedule:

There are numerous member line item balances on the December 31, 2006 Supplemental Schedule that reflect a negative Annuity Savings account balance. These line items should be adjusted or deleted since they result in an incorrect Supplemental Schedule balance. The auditor observed that the majority of the negative balance items related to members who have terminated and taken refunds. It appears that the refund amounts were not entered correctly into the automated membership module which reflects "Reductions" and "Trf to Pen Res" columns on the Supplemental Schedule.

Recommendation: Negative Supplemental Schedule balances should be investigated and adjusted to the proper balance. Members who have transferred, or retired from the Swampscott Retirement System should not appear on the Supplemental Schedule. In addition, due care should be taken in entering member refunds into the automated membership module. The data entered should result in a zero ending membership balance.

Board Response:

Staff will review all refund entries to insure that there is a zero balance in their member accounts prior to closing.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

7. Accounting:

A review of the detailed activity and transactions posted in the general ledger disclosed a number of discrepancies that resulted in variances from the normal and expected results of the operations and activities of the Swampscott Contributory Retirement System. These are similar and consistent with findings disclosed in the previous audit report.

- The system pays salaries to staff through the Town of Swampscott MUNIS payroll system. It reimburses the town twice annually, at the end of the fiscal year in June and again at the end of the calendar year in December. However, only one adjusting journal entry was posted to record these results in an appropriate general ledger account in 2005 and 2004. The result is only approximately half the value reported for staff salaries is reflected on the Annual Statement submitted to PERAC in 2005 and 2004. The difference is included in the accumulated activity reported as Administrative Expenses (#5589).
- The PERAC chart of accounts was expanded in 2000 to include separate expense categories for Fiduciary Insurance (#5310), Service Contracts (#5311), Rent (#5312) and Furniture and Equipment (#5599). It was noted that the Swampscott Retirement System did not separately report summary activity in these categories until 2006. Disbursements made were included in the total reported as Administrative Expenses (#5589) in 2005.
- Consultant Fees (#5307) are overstated by amounts paid to a consultant not associated with investment activities. These professional services would have been more accurately reported as Administrative Expenses.

Recommendation: The importance of providing financial information that is consistent with other systems is a basic tenet of financial disclosure for public trusts. PERAC provides a uniform chart of accounts for general ledger control and subsidiary activity in order to record financial transactions. These tools are designed to compile results of operations that are comparable between all the retirement systems regulated by PERAC within the Commonwealth under G.L. c. 32.

Board Response:

Pursuant to the Commission's recommendation, the System has classified certain accounts charged to Administrative Expenses to the proper expense categories for 2006 and moving forward.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2006	2005
Net Assets Available For Benefits:		
Cash	\$615,871	\$119,941
Short Term Investments	198,546	301,865
Equities	6,640,613	15,762,539
Pooled Domestic Equity Funds	10,315,784	0
Pooled International Equity Funds	5,635,923	3,630,471
Pooled Global Fixed Income Funds	6,008,916	7,504,781
Pooled Alternative Investment Funds	268,515	84,173
Pooled Real Estate Funds	1,529,743	1,398,517
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	7,003	9,561
Accounts Receivable	833	35,922
Accounts Payable	(8,720)	(8,720)
Total	<u>\$31,213,028</u>	<u>\$28,839,050</u>
Fund Balances:		
Annuity Savings Fund	\$8,121,459	\$7,464,840
Annuity Reserve Fund	3,612,613	3,775,516
Pension Fund	(1,713,561)	(869,111)
Military Service Fund	322	322
Expense Fund	0	0
Pension Reserve Fund	21,192,194	18,467,484
Total	<u>\$31,213,028</u>	<u>\$28,839,050</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	\$6,861,734	\$3,961,903	\$119,234	\$322	\$0	\$16,564,590	\$27,507,782
Receipts	1,016,153	114,944	2,783,333	0	350,667	1,902,894	6,167,991
Inter Fund Transfers	(190,426)	190,426	0	0	0	0	(0)
Disbursements	(222,621)	(491,758)	(3,771,678)	0	(350,667)	0	(4,836,723)
Ending Balance (2005)	7,464,840	3,775,516	(869,111)	322	0	18,467,484	28,839,050
Receipts	949,461	108,970	3,027,326	0	453,035	2,724,711	7,263,502
Inter Fund Transfers	(217,950)	222,762	(4,812)	0	0	0	(0)
Disbursements	(74,892)	(494,634)	(3,866,963)	0	(453,035)	0	(4,889,523)
Ending Balance (2006)	<u>\$8,121,460</u>	<u>\$3,612,613</u>	<u>(\$1,713,561)</u>	<u>\$322</u>	<u>\$0</u>	<u>\$21,192,194</u>	<u>\$31,213,028</u>

STATEMENT OF RECEIPTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2006	2005
Annuity Savings Fund:			
Members Deductions		\$864,774	\$834,150
Transfers from Other Systems		30,309	137,836
Member Make Up Payments and Re-deposits		8,473	4,255
Member Payments from Rollovers		0	0
Investment Income Credited to Member Accounts		<u>45,904</u>	<u>39,912</u>
Sub Total		<u>949,461</u>	<u>1,016,153</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund		<u>108,970</u>	<u>114,944</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems		21,130	21,586
Received from Commonwealth for COLA and Survivor Benefits		337,075	200,176
Pension Fund Appropriation		<u>2,669,120</u>	<u>2,561,571</u>
Sub Total		<u>3,027,326</u>	<u>2,783,333</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service		0	0
Investment Income Credited to the Military Service Fund		<u>0</u>	<u>0</u>
Sub Total		<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation		0	0
Investment Income Credited to the Expense Fund		<u>453,035</u>	<u>350,667</u>
Sub Total		<u>453,035</u>	<u>350,667</u>
Pension Reserve Fund:			
Federal Grant Reimbursement		0	0
Pension Reserve Appropriation		0	0
Interest Not Refunded		873	72
Miscellaneous Income		0	0
Excess Investment Income		<u>2,723,838</u>	<u>1,902,822</u>
Sub Total		<u>2,724,711</u>	<u>1,902,894</u>
Total Receipts		<u>\$7,263,502</u>	<u>\$6,167,991</u>

STATEMENT OF DISBURSEMENTS

		FOR THE PERIOD ENDING DECEMBER 31,	
		2006	2005
Annuity Savings Fund:			
Refunds to Members		\$23,113	\$15,725
Transfers to Other Systems		<u>51,778</u>	<u>206,896</u>
Sub Total		<u>74,892</u>	<u>222,621</u>
Annuity Reserve Fund:			
Annuities Paid		494,634	491,758
Option B Refunds		<u>0</u>	<u>0</u>
Sub Total		<u>494,634</u>	<u>491,758</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments		2,603,919	2,498,776
Survivorship Payments		82,083	95,308
Ordinary Disability Payments		16,073	15,713
Accidental Disability Payments		798,985	772,879
Accidental Death Payments		171,483	167,193
Section 101 Benefits		31,095	29,797
3 (8) (c) Reimbursements to Other Systems		128,617	157,538
State Reimbursable COLA's Paid		31,512	31,373
Chapter 389 Beneficiary Increase Paid		<u>3,195</u>	<u>3,102</u>
Sub Total		<u>3,866,963</u>	<u>3,771,678</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds		<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend		0	0
Salaries		77,225	39,283
Legal Expenses		9,820	7,065
Medical Expenses		0	0
Travel Expenses		4,741	2,475
Administrative Expenses		74,037	83,717
Furniture and Equipment		769	0
Management Fees		186,337	169,055
Custodial Fees		12,294	23,820
Consultant Fees		50,208	25,250
Rent Expenses		18,505	0
Service Contracts		10,317	0
Fiduciary Insurance		8,781	0
Sub Total		<u>453,035</u>	<u>350,667</u>
Total Disbursements		<u>\$4,889,523</u>	<u>\$4,836,723</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$16,465	\$14,704
Short Term Investments	29,977	12,983
Fixed Income	0	48,828
Equities	94,523	130,777
Pooled or Mutual Funds	203,179	92,653
Commission Recapture	<u>3,535</u>	<u>2,539</u>
Total Investment Income	<u>347,679</u>	<u>302,484</u>
Plus:		
Realized Gains	584,436	660,318
Unrealized Gains	4,065,520	2,479,160
Interest Due and Accrued - Current Year	<u>7,003</u>	<u>9,561</u>
Sub Total	<u>4,656,959</u>	<u>3,149,039</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	(5,094)
Realized Loss	(1,310,891)	(644,294)
Unrealized Loss	(352,440)	(326,392)
Interest Due and Accrued - Prior Year	<u>(9,561)</u>	<u>(67,398)</u>
Sub Total	<u>(1,672,892)</u>	<u>(1,043,178)</u>
Net Investment Income	<u>3,331,746</u>	<u>2,408,345</u>
Income Required:		
Annuity Savings Fund	45,904	39,912
Annuity Reserve Fund	108,970	114,944
Military Service Fund	0	0
Expense Fund	<u>453,035</u>	<u>350,667</u>
Total Income Required	<u>607,908</u>	<u>505,523</u>
Net Investment Income	<u>3,331,746</u>	<u>2,408,345</u>
Less: Total Income Required	<u>607,908</u>	<u>505,523</u>
Excess Income To The Pension Reserve Fund	<u>\$2,723,838</u>	<u>\$1,902,822</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$615,871	2.0%	100%
Short Term	198,546	0.6%	100%
Equities	6,640,613	21.3%	100%
Pooled Domestic Equity Funds	10,315,784	33.0%	100%
Pooled International Equity Funds	5,635,923	18.1%	100%
Pooled Global Fixed Income Funds	6,008,916	19.3%	100%
Pooled Alternative Investment Funds	268,515	0.9%	7.5%
Pooled Real Estate Funds	1,529,743	4.9%	5%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
Grand Total	<u>\$31,213,911</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Swampscott Retirement System was 11.53%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Swampscott Retirement System averaged 8.05%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Swampscott Retirement System was 10.64%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Swampscott Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

August 31, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Swampscott Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

July 26, 2000

In accordance with PERAC Memo #44/1999, self-imposed restrictions on your Board's percentage of holdings in specific asset classes have been rescinded. Your board must, however, make asset allocation decisions subject to your fiduciary duty.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Swampscott Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension per year per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Swampscott Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

May 21, 1998

Creditable Service

Any employee of the Town of Swampscott who served as a auxiliary or special police officer in any governmental unit or political subdivision of the Commonwealth prior to becoming a member of the Swampscott Retirement System shall be considered a temporary employee as set forth in G.L. c.32, § 4(2) (c) and may receive credit for actual service rendered in this capacity, based on the actual compensation received while rendering such service and upon making payment to the System, with interest, prior to the member's actual retirement.

May 20, 1998

Cost of Living Adjustments Guidelines

In making determination whether a cost-of-living adjustment should be granted in any particular year and whether said cost-of living adjustment would substantially impair the funding schedule of the Swampscott Retirement System, the Swampscott Retirement Board hereby adopts the following guidelines:

1. A cost-of-living adjustment for eligible retirees and beneficiaries shall not be granted unless the average rate of return on the Swampscott Retirement System's investments for the three-year period immediately preceding the current calendar year is at least eight per cent.
2. Any cost of living adjustment will be an amount equal to the Consumer Price Index as calculated by PERAC or 3% whichever is less.
3. The Swampscott Retirement Board is under no obligation to grant cost-of-living adjustment in any particular year.

December 17, 1996

Buy-backs

An eligible member may not receive additional creditable service until the member has paid into the annuity savings fund of the retirement system "in one lump sum or in installments" the amount required by chapter 7I of the acts of 1996. This allows the member to choose his/her own method or option of payment, thereby eliminating payroll deduction. The total veterans' buyback payment would be payable in full prior to the member's effective date of retirement.

June 20, 1995

Buy-backs

Repeal of Supplementary Rule

A member of the Swampscott Retirement System shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

January 6, 1995

Rules and Regulations

MEMBERSHIP

- Every employee who becomes a member of the Swampscott Retirement System must complete the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment he/she must also furnish the Board with a birth certificate, and if a veteran, a copy of his/her Discharge of Military Service or equivalent which shall be kept on file with the board.
- Full-time permanent employees who work at least 30 hours per week and are under age 65 must join the Retirement System as of the date of their employment.
- Part-time permanent employees who work at least 20 but less than 30 hours per week and are under the age of 65 must join the retirement system as of their date of employment.
- Elected officials who receive compensation may join the Retirement System within ninety (90) days after the date of assuming office, if under age 65 on the date of election. (Note: this supplementary rule was modified slightly from the form submitted to comply with the requirements of G.L. c. 32, § 3 (2) (vi).)
- Temporary employees, employees who are normally scheduled to work less than 20 hours per week are not eligible for membership in the retirement system. (Amended 5/21/98)
- The Retirement board shall have full jurisdiction to determine the eligibility of employees for membership involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment service.

CREDITABLE SERVICE

- Full-time permanent employees will receive full credit except in instances where full-time employees also had part-time service.
- Any part-time employee, who qualified for membership, shall receive one (1) year of creditable service provided they work the hours required for their position and provided their entire service is on a part-time basis.
- Subject to verification as specified by the agency any full-time employee who becomes part-time shall receive credit for their part-time service on a pro-rated basis as it relates to a full-time position.
- Subject to verification as specified by the agency any part-time employee who becomes full-time shall receive credit for their part-time service on a pro-rated basis as it relates to a fulltime position.
- Members who work at least seven continuous months per year will be credited with one year of service for each year worked provided they work the hours required by their position and provided their entire service is on the same basis.
- The Board will not accept service credit liability of less than 13 consecutive weeks (minimum 20 hours per week) for former Swampscott governmental employees who were ineligible at the time of their employment in the Swampscott Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

BUY BACKS

- Members seeking to buy back time must submit, in writing, dates and places of previous employment. The Retirement Board will request all pertinent information from the appropriate agencies.
- A member of the Swampscott Retirement System shall be allowed to buy back time which they earned during their status as a less than half-time employee and ineligible for membership, provided that the creditable service shall be granted based upon the actual service rendered. (repealed June 20, 1995)

CHANGES IN EMPLOYEE STATUS

- Member's agencies must notify the Retirement board within 90 days of any changes in employee status including workers' compensation, position held and hours in work week. (Note: G.L. c. 32, § 3(2)(g) requires department heads to notify the board within 30 days of any change in the title, address, rate of compensation, duties or service of any employee in the department.)

INJURIES

All major injuries incurred due to employment must be reported in writing to the Swampscott Retirement Board within 90 days of the accident.

January 8, 2002 and October 8, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulations available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: David Castellarin

Appointed Member: John F. Behen, Jr. Term Expires: 12/19/08

Elected Member: Francis E. Delano, Jr. Term Expires: 08/11/10

Elected Member: Thomas H. Driscoll, Jr. Term Expires: 06/30/08

Appointed Member: John T. Kiely, Jr. Term Expires: 01/07/08

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$1,000,000 Fiduciary Liability policy
Elected Member:)	National Union Fire Insurance Co.
Appointed Member:)	\$1,000,000 Commercial Crime policy
Staff Employee:)	National Union Fire Insurance Co.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2006.

The actuarial liability for active members was	\$21,691,739
The actuarial liability for inactive members was	313,839
The actuarial liability for retired members was	<u>36,076,584</u>
The total actuarial liability was	58,082,162
System assets as of that date were (actuarial value)	<u>30,492,424</u>
The unfunded actuarial liability was	<u>\$27,589,738</u>
The ratio of system's assets to total actuarial liability was	52.5%
As of that date the total covered employee payroll was	\$10,011,387

The normal cost for employees on that date was 8.8% of payroll

The normal cost for the employer was 7.0% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by service and by group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$30,492,424	\$58,082,162	\$27,589,738	52.5%	\$10,011,387	275.6%
1/1/2004	\$28,721,832	\$52,826,739	\$24,104,907	54.4%	\$9,044,330	266.5%
1/1/2002	\$29,429,260	\$47,842,001	\$18,412,741	61.5%	\$8,337,379	220.8%
1/1/2000	\$27,150,564	\$40,926,782	\$13,776,218	66.3%	\$7,516,008	183.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	7	5	3	13	10	25	7	2	1	2
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	1	1	1	0	2	0	0
Total Retirements	7	5	3	14	11	26	7	4	1	2
Total Retirees, Beneficiaries and Survivors	213	213	207	213	227	214	227	227	224	223
Total Active Members	267	269	292	274	264	282	309	287	272	282
Pension Payments										
Superannuation	\$1,252,495	\$1,291,466	\$1,311,186	\$1,393,388	\$1,554,098	\$1,683,852	\$2,169,481	\$2,345,744	\$2,498,776	\$2,603,919
Survivor/Beneficiary Payments	93,095	130,320	97,295	109,722	102,989	96,533	91,246	91,851	95,308	82,083
Ordinary Disability	28,075	26,918	27,326	27,686	37,511	31,873	22,468	15,353	15,713	16,073
Accidental Disability	631,214	611,691	600,347	591,311	647,571	721,145	726,263	727,746	772,879	798,985
Other	<u>296,298</u>	<u>270,544</u>	<u>297,960</u>	<u>343,794</u>	<u>306,606</u>	<u>283,907</u>	<u>293,759</u>	<u>413,171</u>	<u>389,003</u>	<u>365,902</u>
Total Payments for Year	<u>\$2,301,177</u>	<u>\$2,330,939</u>	<u>\$2,334,114</u>	<u>\$2,465,901</u>	<u>\$2,648,775</u>	<u>\$2,817,310</u>	<u>\$3,303,217</u>	<u>\$3,593,865</u>	<u>\$3,771,678</u>	<u>\$3,866,963</u>

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